

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
<b>2000 Biennial Regulatory Review --</b>	)	<b>CC Docket No. 00-199</b>
Comprehensive Review of the	)	
Accounting Requirements and	)	
ARMIS Reporting Requirements for	)	
Incumbent Local Exchange Carriers:	)	
Phase 2 and Phase 3	)	

**REPLY COMMENTS OF SPRINT CORPORATION**

Sprint Corporation ("Sprint"), on behalf of its local and long distance divisions, submits its reply comments in the Notice of Proposed Rulemaking ("NPRM") released on October 18, 2000, in the above referenced docket. In these reply comments, Sprint responds to issues regarding relief for mid-sized carriers and regulation of revenues subject to pricing flexibility.

In the NPRM, the Commission proposed specific relief from financial reporting for mid-sized incumbent local exchange carriers ("ILECs").<sup>1</sup> These mid-sized ILECs are currently defined as Class A companies, by virtue of the fact that they have annual operating revenues at or above the "indexed revenue threshold," as defined in 47 C.F.R. §32.9000 (currently \$114 million), but with aggregate holding company local exchange carrier revenue of less than \$7 billion.<sup>2</sup> Today, there are 22 mid-sized ILECs, including Cincinnati Bell, C-TEC, 13 Sprint companies, 5 Alltel companies, Frontier and Citizens.<sup>3</sup>

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<sup>1</sup> NPRM at para. 80

<sup>2</sup> 47 C.F.R. §32.9000, *Mid-sized incumbent local exchange carriers*.

<sup>3</sup> NPRM at para. 50.

The relief proposed for the mid-sized ILECs by the Commission in paragraph 80 of the NPRM included (i) an annual certification of compliance with 47 C.F.R. §64.901 in place of annual CAM filings and biennial CAM audits, and (ii) elimination of all financial ARMIS reporting except the 43-01 Summary Report. The Commission also proposed to relieve some of the smaller companies of their Class A status by raising the indexed revenue threshold from \$114 million to \$200 million.

At the heart of the proposed relief for mid-sized ILECs is the Commission's acknowledgment that its staff's focus on the ARMIS tables has mostly been limited to the largest incumbent LECs (the regional Bell operating companies, or "RBOCs") because the RBOCs have the greatest opportunities and incentives for cost shifting between services.<sup>4</sup> This acknowledgment stems from the simple fact that the RBOCs earn the vast majority of the Class A ILEC operating revenue and thus draw the most attention from regulators.<sup>5</sup>

Nevertheless, AT&T attempts to challenge the Commission's acknowledgment, stating that the notion that mid-sized ILECs have reduced opportunities for cost-shifting is simply wrong.<sup>6</sup> AT&T supports its argument by indicating that mid-sized ILECs sometimes have higher nonregulated operating expense to total operating expense ratios than RBOCs. In addition, AT&T opines that the mid-sized ILECs are too large to deserve relief. Sprint is singled out for earning over \$4.1 billion in regulated revenue in the 18 states where its ILECs operate.<sup>7</sup>

AT&T misses the Commission's point. First, the Commission is proposing only to afford the mid-sized ILECs relief from filing requirements, not relief from compliance with

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<sup>4</sup> *NPRM* at para. 80.

<sup>5</sup> The four RBOCs (including GTE as part of Verizon) account for 93.3% of the net revenues of the Class A carriers, as set forth on page 3 of Sprint's Comments.

<sup>6</sup> AT&T Comments at 10.

<sup>7</sup> *Id.*

cost allocation requirements. By establishing the preface that the staff's focus in ARMIS analysis has been on the RBOCs, the Commission concludes that if the mid-sized ILECs' ARMIS data is not going to be analyzed or used, it makes no sense to continue to require them to file it, especially in any great detail. Second, mid-sized ILECs have less opportunities than the RBOCs to shift costs between regulated and nonregulated services simply because they have less costs to shift and therefore have a limited ability to impact consumers. Thus, even a small reduction in allocation of costs from regulated to nonregulated operations by the smallest RBOC has a larger impact than an equivalent reduction by all the mid-sized ILECs combined. The point that some mid-sized ILECs have a slightly higher nonregulated expense ratio proves nothing and ignores the substantial size difference between the RBOCs and the mid-sized ILECs. To illustrate, in 1999, the four RBOCs (including GTE) accounted for 93.3% of the Class A carriers' total operating revenues, and accounted for 93.7% of the Class A carriers' total regulated revenues.<sup>8</sup>

Third, with the exception of Alltel, the mid-sized ILECs are generally subject to price cap regulation, which certainly gives them no more incentive than the RBOCs to shift costs. Finally, with respect to Sprint, which is the largest of the mid-sized carriers, the facts set forth by AT&T can be used to support the Commission's conclusion. Sprint ILEC regulated revenues are spread across 18 states, from Washington to Florida. Sprint's ILECs are rural telephone companies, as defined in 47 U.S.C. §153 (37), in every one of those states except Nevada. And the \$4.1 billion in regulated revenue attributed to Sprint by AT&T is only 4% of the combined regulated revenues of the RBOCs. For all of these reasons, the Commission is correct in stating that the mid-sized ILECs have less opportunity

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<sup>8</sup> 1999 ARMIS Reports 43-03, Line 530.

and incentive to shift costs between services, and therefore it is appropriate to afford mid-sized ILECs the relief proposed in paragraph 80 of the NPRM.

Some of the parties filed comments seeking to define the threshold for mid-sized ILECs at two percent of the access lines at the holding company level.<sup>9</sup> Revenue is a better factor than percentage of access lines for defining mid-sized status. First, revenue is a more certain indicator than access lines. Second, it is easier for carriers to evaluate their status by accounting for a single factor, revenues, than by accounting for two factors: the carrier's own access lines and the total nationwide access lines. In addition, whereas each carrier can evaluate its own revenues, a third party would have to confirm the nationwide line count (ITTA suggests NECA<sup>10</sup>), which adds to the cost of administration. Finally, in CC Docket No. 96-193, the Commission considered this issue and rejected using line counts to establish a CAM and ARMIS filing threshold.<sup>11</sup> In that docket, the Commission found that the two percent rule contained in 47 U.S.C. §251(f), which allowed LECs with fewer than two percent of the Nation's access lines to seek suspension or modification of interconnection obligations, had no application to the CAM and ARMIS filing thresholds. Section 251(f) was enacted in 1996 before a number of mergers between the RBOCs and GTE created greater concentration among the ILECs. Hence, the two percent standard is even less meaningful today than in 1996 when it was enacted, or 1997 when the Commission found it unpersuasive. For the reasons stated above, the arguments to overturn the Commission's ruling in CC Docket No. 96-193 should be rejected.

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<sup>9</sup> Cincinnati Bell Comments at 8,11; ITTA Comments at 12-16.

<sup>10</sup> ITTA Comments at 15-16

<sup>11</sup> Implementation of the Telecommunications Act of 1996; Reform of Filing Requirements and Carrier Classifications; Anchorage Telephone Utility, Petition for Withdrawal of Cost Allocation Manual, CC Docket No. 96-193; AAD 95-91, Report and Order, 12 FCC Rcd 8071 (1997) at paras. 69-70.

With respect to the Commission's proposal to substitute an annual certification of compliance with 47 C.F.R. §64.901 in place of annual CAM filings and biennial CAM audits, Sprint agrees with the comments submitted by the Public Service Commission of Wisconsin, which supported the elimination of the annual CAM filing by mid-sized ILECs, and added that the annual certification, although not much of a burden, also seems unnecessary. The Wisconsin Commission's rationale is that the Common Carrier Bureau could order an audit of a carrier's books if it suspected that the carrier was not in compliance with cost allocation requirements.<sup>12</sup> Because of the ability to request information or audit when warranted, it is not necessary to burden all of the mid-sized ILECs with annual CAM filings and biennial audits.

Regarding the Commission's proposed increase of the indexed revenue threshold from \$114 million to \$200 million, Sprint commented that the increase was too modest and would not cover all of the truly mid-sized ILECs. Sprint demonstrated that, of the 22 mid-sized ILECs who currently exceed the \$114 million threshold, only eight would clearly be impacted by an increase to \$200 million, but 17 of the 22 would be covered by increasing the threshold to \$400 million.<sup>13</sup> Other commenters were more aggressive in raising the indexed revenue threshold. Roseville Telephone Company supported a threshold of \$500 million, and Iowa Telecommunications ("IT") suggested \$750 million. Roseville's \$500 million level would not provide immediate relief to any more mid-sized ILECs than Sprint's \$400 million threshold, but IT's figure would include two additional carriers, both Sprint entities. The \$750 million level would omit only two Sprint entities and Cincinnati Bell from Class B

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<sup>12</sup> Wisconsin Commission Comments at 21.

<sup>13</sup> Sprint Comments at 5.

status.<sup>14</sup> Sprint supports an indexed revenue threshold that effectively treats the mid-sized ILECs as Class B carriers, including the \$750 million threshold proposed by IT.

Finally, WorldCom filed comments stating that "In order to maintain a minimum level of oversight over access services that have been removed from price cap regulation," under the Commission's "Pricing Flexibility Order," the Commission should require the ILECs to report interstate access revenues from contract tariffs or that are no longer subject to price cap regulations.<sup>15</sup> WorldCom appears to be taking an opportunity to try to acquire potentially sensitive information from its competitors. WorldCom should not be entitled to review interstate access revenues specifically subject to price flexibility. If WorldCom is concerned with pricing, the prices in both contract tariffs and access services subject to pricing flexibility remain publicly available in the interstate access tariffs.

Further, WorldCom misses the point of lessened regulation. In order for certain interstate access services to be offered under contract tariffs or outside of price cap regulation, the ILEC must first pass a test set forth in Commission rules indicating that there are sufficient collocators in the ILEC's wire centers and that transport is available from a party other than the ILEC.<sup>16</sup> Having passed this test, the ILEC is entitled to less price regulation of such services because of the existence of alternatives. WorldCom's proposal to subject the ILECs to different regulation should be rejected.

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<sup>14</sup> Calculations are drawn from 1999 ARMIS Reports 43-02, Table 1a. Income Statement Accounts, Line 530.

<sup>15</sup> WorldCom Comments at 7.

<sup>16</sup> 47 C.F.R. §69.701 *et. seq.*

Respectfully submitted,

SPRINT CORPORATION

By     //s//    

Jay C. Keithley  
401 9<sup>th</sup> Street, NW, #400  
Washington, DC 20004  
(202) 585-1920

Rick Zucker  
6360 Sprint Parkway, KSOPHE0302  
Overland Park, KS 66251  
(913) 762-1920

## **CERTIFICATE OF SERVICE**

I, Joyce Walker, hereby certify that I have on this 30th day of January 2001, served via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing “Reply Comments of Sprint Corporation” In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket No. 00-199, filed this date with the Secretary, Federal Communications Commission, to the persons on the attached service list.

\_\_\_\_\_/s/\_\_\_\_\_  
Joyce Walker



James Ramsey  
National Association of Regulatory Utility  
Commissioners  
1101 Vermont Avenue, Suite 200  
Washington, DC 20005

Christopher A McLean  
Rural Utilities Services  
1400 Independence Avenue SW  
Mail stop: 1510  
Washington, D.C. 20250

Vickie L. Moir  
North Carolina Utilities Commission-  
Public Staff  
4326 Mail Service Center  
430 North Salisbury Street  
Raleigh, NC 27699-4326

Susan Stevens Miller  
General Counsel  
Maryland Public Service Commission  
6 Saint Paul Street  
Baltimore, MD 21202

Marilyn Showalter  
Richard Hemstad  
William R. Gillis  
WUTC  
1300 S. Evergreen Park Dr. SW  
P.O. Box 47250  
Olympia, WA 98504-7250

Margot Smiley Humphries  
Holland & Knight LLP  
Attorney for TDS Telecommunications  
Corporation  
2100 Pennsylvania Avenue, N.W., Suite  
400  
Washington, DC 20037

Cynthia Miller  
Florida Public Service Commission  
2540 Shumard Oak Blvd  
Gerald Gunter Bldg  
Tallahassee, FL 32399-0850

Michael J. Ettner  
Senior Assistant General Counsel for  
General Services Administration  
1800 F Street N.W., Room 4002  
Washington, DC 20405

Stephen L. Earnest  
Richard M. Sbaratta  
Stephen L. Earnest  
BellSouth Corporation  
675 West Peachtree Street  
Atlanta, GA 30375

Laurence G. Malone  
General Counsel  
Public Service Commission of the State of  
New York  
Three Empire State Plaza  
Albany, NY 12223-1350

Steve Ellenbecker  
Kristin Lee  
Wyoming Public Service Commission  
2515 Warren Avenue, Suite 300  
Cheyenne, WY 82002

Ron Eachus  
Roger Hamilton  
Joan H. Smith  
Oregon Public Utility Commission  
550 Capitol Street, N.E Suite 215  
Salem, OR 97310-2551

Joseph DiBella  
Verizon Communications  
1320 North Court House Road  
Eighth Floor  
Arlington, VA 22201

Christopher J. Wilson  
Delia Reid Saba  
Cincinnati Bell Telephone Company  
201 East Fourth Street  
Cincinnati, Ohio 45202

James T. Hannon  
Qwest Corporation  
1020 19<sup>th</sup> Street NW., Suite 700  
Washington, DC 20036

Robert S. Tongren  
Michael J. Travieso  
NASUCA  
8300 Colesville Road, Suite 101  
Silver Spring, MD 20910

Scott Fabel  
Montana PSC  
1701 Prospect Avenue  
P.O. Box 202601

James U. Troup  
Brain D. Robinson  
Arter & Hadden LLP  
Attorneys for Iowa Telecommunications  
Services  
1801 K Street N.W., Suite 400K  
Washington, DC 20006-1301

Lawrence E. Sarjeant  
Linda L. Kent  
John W. Hunter  
Julie E. Rones  
USTA  
1401 H Street NW., Suite 600  
Washington, DC 20005

Paul J. Feldman  
Fletcher, Heald and Hildreth, PLC  
Attorneys for Roseville Telephone  
Company  
1300 North 17<sup>th</sup> Street., 11<sup>th</sup> Floor  
Arlington, VA 22209

David W. Zesiger  
Richard Cameron  
Independent Telephone &  
Telecommunications Alliance  
1300 Connecticut Avenue, N.W., Suite 600  
Washington, DC 20036

Judy Sello  
Mark C. Rosenblum  
AT&T Corporation  
295 North Maple Avenue, Room 1135L2  
Basking Ridge, NJ 07920

Alan Buzacott  
WorldCom Corporation  
1801 Pennsylvania Ave, NW  
Washington, DC 20006

Lisa Nordstrom  
Idaho Public Utilities Commission  
P.O. Box 38720  
472 W. Washington Street  
Boise ID 83720-0074

**Joel Ader**  
**Telecordia Technologies**  
**710 L'Enfant Plaza S.W.,**  
**Promenade Level, East Building**  
**Washington, D.C. 20024**

**Ave M Bie, Chairperson**  
**Public Service Commission of Wisconsin**  
**610 North Whitney Way**  
**PO Box 7854**  
**Madison, WI 53707-7854**